

Message Text

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PAGE 01 BERN 00627 01 OF 02 161527Z

ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 EA-09 NEA-10 AGRE-00 FEAE-00 INT-05
/131 W

-----161602Z 064732 /46

R 161509Z FEB 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 3907

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USMISSION GENEVA

USDEL MTN GENEVA

AMCONSUL ZURICH

UNCLAS SECTION 1 OF 2 BERN 627

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK FEB 6-12

1. SUMMARY: FOREIGN EXCHANGE MARKET CALM. DOLLAR RATE
AGAINST SWISS FRANC STEADY AT SF 2.51 DESPITE MID-WEEK
FLUCUATIONS. GOLD PRICE ROSE TO 134. CAPITAL MARKET
HIGHLY LIQUID AFTER EARLY FEB BANK LIQUIDITY SHORTAGE.
MORTGAGE INTEREST RATES DECLINING. PRESS REPORTED DISAGREE-
MENT BETWEEN SWISS AND OECD SECRETARIAT ON SWISS 1977
ECONOMIC POLICY. GOVT ECONOMIC COMMISSION FORECASTS
NO BUSINESS UPSWING IN 1977. UNEMPLOYMENT ROSE 20.7 PCT
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PAGE 02 BERN 00627 01 OF 02 161527Z

DURING JAN. INCREASED STRUCTURAL UNEMPLOYMENT EXPECTED IN 1977.
WHILESALE PRICE INDEX ROSE 0.3 PCT AND CONSUMER PRICE INDEX
ROSE 0.2 PCT IN JAN.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE MARKET RE-

LATIVELY QUIET. DOLLAR RATE AGAINST SWISS FRANC
 REMAINED STEADY DESPITE MID-WEEK DOWNWARD FLUCTUATIONS,
 REACTING TO US ECONOMIC SLOWDOWN FROM COLD WEATHER.
 POUND STERLING WAS ALSO STABLE, THOUGH BANK SOURCES
 ATTRIBUTED THIS TO IMF CREDIT FACILITY WHICH BECAME
 EFFECTIVE LAST WEEK AND INFLOW OF RESERVES ATTRACTED
 BY HIGHER INTEREST RATES AND LOW EXCHANGE RATE. THESE
 SOURCES BELIEVE FUNDAMENTAL UK ECONOMIC PROBLEMS CONTINUE
 TO PREVAIL DESPITE APPARENT EXCHANGE RATE STABILITY.
 DM RATE ROSE SLIGHTLY; FRENCH FRANC WAS FIRM. GOLD
 PRICE ROSE IN CLEAR UPWARD TREND TO 134. RATES FOL:

| | 2/7 (OPEN) | 2/11(CLOSE) |
|----------------------------|------------|-------------|
| SPOT DOLLAR | 2,5180 | 2,5175 |
| FORWARD DISCOUNT (PCT P A) | | |
| ONE MONTH | 3.19 | 3.33 |
| 2 MONTHS | 3.52 | 3.48 |
| 3 MONTHS | 3.65 | 3.70 |
| 6 MONTHS | 3.85 | 3.81 |
| 12 MONTHS | 3.73 | 3.79 |
| SF/DM 100 | 103.94 | 104.56 |
| GOLD | 132.25 | 134.75 |

3. CAPITAL AND MONEY MARKETS: SWISS NATIONAL BANK FOREIGN
 EXCHANGE HOLDINGS INCREASED SF 810 MILLION RESULTING FROM
 NEW SHORT-TERM SWAPS WITH BANKS DURING UNEXPECTED
 LIQUIDITY SHORTAGE DURING FIRST WEEK FEB. MARKETS
 OTHERWISE CLOSED WEEK HIGHLY LIQUID. CALL MONEY RATE
 CLOSED FRIDAY AT 0.25 PCT, DOWN FROM 1 PCT
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PAGE 03 BERN 00627 01 OF 02 161527Z

EARLIER IN WEEK. STOCK PRICES GENERALLY EASED; SKA
 INDEX (1959 - 100) 224.8 FEB 11. AVERAGE YIELD CON-
 FEDERATION BONDS DOWN TO 4.01. BANK LEU REPORTED IT
 WILL REDUCE ITS MORTGAGE RATES BY 0.5 PCT EFFECTIVE
 APR 1, 1977, BRINGING FIRST MORTGAGES ON HOUSES DOWN
 TO 5 PCT. REPUBLIC OF SINGAPORE WILL FLOAT LOAN ON
 SWISS MARKET FOR SF 50 MILLION AT 5.5 PCT INTEREST OVER 12 YEARS.

ECONOMIC

4. OECD REVIEW OF SWISS ECONOMY: JOURNAL DE GENEVE
 LEAD EDITORIAL FEB 12 REPORTED SWISS DISAGREEMENT WITH
 OECD RECOMMENDATIONS DURING FEB 9 REVIEW THAT SWISS
 ADOPT MORE DYNAMIC MEASURES TO STIMULATE DOMESTIC DEMAND
 AND INCREASE IMPORTS. JOURNAL EXPLAINED THAT OECD
 UNSYMPATHETIC TO SWISS DESIRE FOR ECONOMIES AND BALANCED
 BUDGET BECAUSE OVERALL SWISS ECONOMIC PICTURE, ESPECIALLY
 LOW UNEMPLOYMENT AND INFLATION RATES WITH RECORD CURRENT
 ACCOUNT SURPLUS, IS ONE OF STRONG OECD COUNTRY WHICH

SHOULD HELP LEAD WORLD ECONOMIC RECOVERY. JOURNAL NOTED
THAT GOVT POLICY ESSENTIALLY AIMS AT PREVENTING
PRODUCTIVE CAPACITY AND UNEMPLOYMENT FROM FALLING TOO LOW

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PAGE 01 BERN 00627 02 OF 02 161514Z
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UNCLAS SECTION 2 OF 2 BERN 627

PASS TREASURY AND FRB

UNTIL RECOVERY LED BY EXPORTS STIMULATES DOMESTIC DEMAND
AND INCREASES IMPORTS. ARTICLE REPORTED OECD ARGUED
THAT BUDGETED 1977 PUBLIC SPENDING IS TOO MODERATE PROPORTION
OF SWISS GNP IN VIEW LOW RISK OF INFLATION AND LOW PER
CAPITA DEBT LEVEL WHILE SWISS STRESSED DANGER OF INCREASED
DEFICIT SPENDING AND NEED FOR INCREASED TAX REVENUES.
THOUGH OECD EXPERTS BECAME RESIGNED TO ARDENTLY
DEFINED SWISS POSITION, THEY WERE NOT CONVINCED. EDITORIAL
COMMENTED THAT BUDGETARY CONSIDERATIONS DO NOT
NECESSARILY HELP CYCLICAL DEVELOPMENTS, BUT ECONOMIC
POLICY MAKERS RECOGNIZE THAT SWISS PUBLIC OPINION DOES
NOT FAVOR INCREASED BUDGET DEFICITS.

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PAGE 02 BERN 00627 02 OF 02 161514Z

5. BUSINESS FORECAST: GOVT COMMISSION FOR ECONOMIC AFFAIRS REPORTED THAT 1977 BUSINESS ACTIVITY WILL REMAIN AT 1976 LEVEL WITH NO GENERAL UPSWING THIS YEAR. EXPORTS EXPECTED PROVIDE MAIN SUPPORT FOR ECONOMIC ACTIVITY, THOUGH RATE OF EXPORT GROWTH EXPECTED TO SLOW DUE TO LESS FAVORABLE TREND IN WORLD ECONOMY. IMPORTS EXPECTED TO RISE BUT EMPLOYMENT EXPECTED TO DECLINE WITH FALL IN DEMAND FOR LABOR. CONSEQUENTLY, CONSUMER DEMAND AND HOUSING DEMAND EXPECTED FALL FURTHER. SLOWING OF RECESSIONARY TREND IN 1976 WAS ATTRIBUTED TO REVIVAL OF BUSINESS ACTIVITY ABROAD AND INCREASED SWISS GOVT SPENDING.

6. UNEMPLOYMENT: GOVT REPORTED UNEMPLOYMENT ROSE 3,576 DURING JAN TO 20,977, UP 20.6 PCT FROM END DEC BUT DOWN 33.6 PCT FROM JAN 76. LARGEST INCREASE WAS IN BUILDING TRADES, UP 49 PCT DUE TO SEASONAL FACTORS. UNEMPLOYMENT RATE NOW ABOUT 0.8 PCT. NUMBER OF UNFILLED VACANT POSITIONS ROSE 15.2 PCT TO 4,560.

7. LABOR MOBILITY: GOVT LABOR OFF CIE DIR BONNY TOLD PRESS THAT DECREASING SALES IN SPECIALIZED REGIONAL INDUSTRIES HOLDS POTENTIAL DANGER OF GROWING STRUCTURAL UNEMPLOYMENT DUE TO IMMOBILITY OF HIGHLY SPECIALIZED LABOR FORCE. CERTAIN INDUSTRIES WERE PARTICULARLY HARD HIT BY THE RECESSION; EMPLOYMENT IN GRAPHIC INDUSTRY IS DOWN 12 PCT, TEXTILES AND CLOTHING 18 PCT, WATCH INDUSTRY 23 PCT AND CONSTRUCTION 35 PCT. SWISS LABOR IMMOBILITY ATTRIBUTED TO CONDITIONS OF FAMILY AND SOCIAL STATUS AS WELL AS GEOGRAPHIC LOCATION AND TRAINING. RECENT STUDIES HAVE URGED CLOSE COOPERATION BETWEEN LABOR, MANAGEMENT AND GOVT TO ENHANCE LABOR MOBILITY, ESPECIALLY THROUGH BROADER PROFESSIONAL TRAINING.

8. PRICES: WHOLESALE PRICE INDEX (1962 - 100) ROSE 0.3 PCT DURING JAN TO 148.3, UP 1.5 PCT FROM END JAN 76. WPI INCREASE LED BY SELECTED FOOD PRODUCTS, ANIMAL FODDER, UNCLASSIFIED

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PAGE 03 BERN 00627 02 OF 02 161514Z

FUELS AND BUILDING MATERIALS, WHILE MEAT, PLASTICS, PAPER, FERROUS METALS AND SYNTHETIC FIBERS DECLINED. CONSUMER PRICE INDEX (1966 - 100) ALSO ROSE 0.2 PCT IN JAN, UP 0.9 PCT FROM END JAN 76. SMALLEST GAIN FOR MONTH OF JAN SINCE 1968. CPI RISE LED BY HEADING OIL, SELECTED FOOD PRODUCTS AND TRANSPORTATION AND COMMUNICATIONS. DAVIS

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Disposition Approved on Date:
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Disposition Event:
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Disposition Reason:
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